

MEMORANDUM

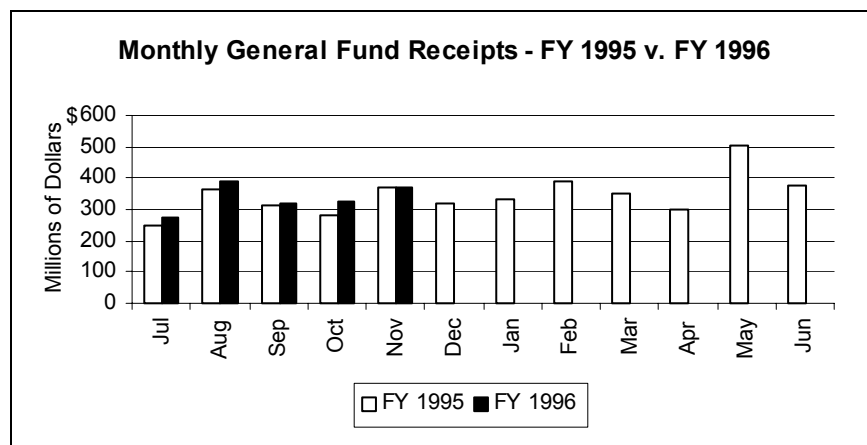
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: October 2, 1995

General Fund Receipts Through September 30, 1995

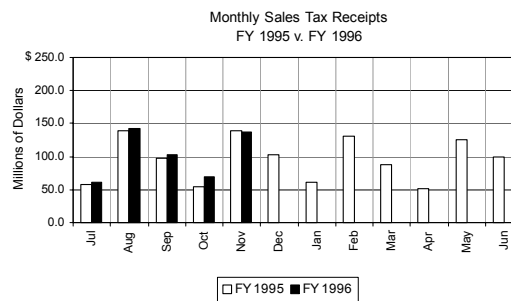
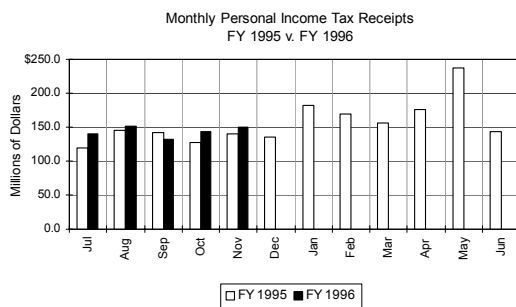
The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate (\$4.285 billion) that was set by the Revenue Estimating Conference (REC) on July 10, 1995. The REC will meet October 4, 1995, to revisit the FY 1996 estimate and establish an estimate for FY 1997.



Total year-to-date General Fund receipts for FY 1996 increased 6.5% over FY 1995. Tax receipts showed an increase of 5.7%. Personal income tax receipts increased 4.3%. Sales tax receipts were 4.7% higher than the previous fiscal year. Use tax increased 8.1% over FY 1995, and corporate income tax receipts showed a 33.7% increase.

Personal income tax receipts through the first quarter totaled \$17.5 million more than the first quarter in FY 1995. September 1995, however, was \$9.8 million (6.9%) less than September 1994. Much of this decline was due to timing factors, including a later than normal school district surtax payment. A significant share of the impact from tax law changes is not expected until the spring of 1996. Changes in pension taxation and the dependent credit (SF 69) are expected to have a total FY 1996 impact of \$48.6 million. Of this amount, only \$6.6 million (13.5%) is expected to impact receipts through the end of the calendar year. Thus, a disproportionate share (83.2%) will impact receipts in the second half of the fiscal year. Conversely, changes in the withholding tables impact receipts more significantly in the first half of

the fiscal year. Nonetheless, almost two-thirds of the total FY 1996 impact from these changes will occur after December 1995.



Monthly sales tax receipts growth rebounded slightly from August's level of 3.0%. Receipts in September were 6.3% higher than September 1994. Although year-to-date use tax receipts remain strong, the monthly growth rate declined to 4.7%.

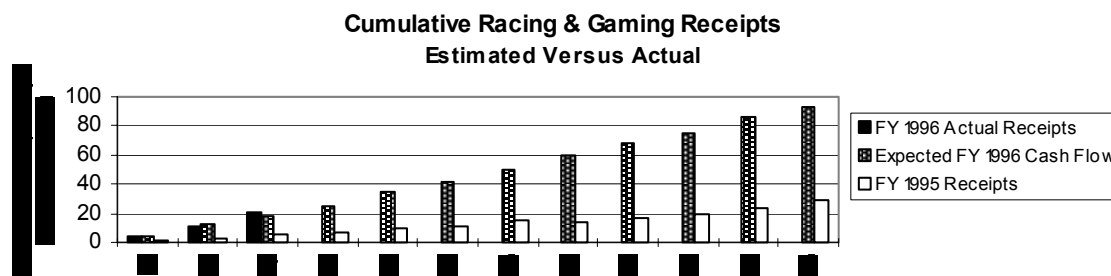
Corporate income tax receipts continue to exceed expectations. The year-to-date growth rate of 33.7% was surpassed by the monthly growth rate of 38.3%. First quarter growth in corporate income tax receipts accounted for 26.5% of the growth in total tax collections, even though the tax source accounts for only 5.7% of total tax receipts.

Franchise tax receipts continue to be a cause for concern. After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in the first three months of FY 1996 were 25.4% lower than the same period in FY 1995. Franchise tax receipts for the month of September were 4.1% lower than September 1994. On May 26, 1995, the Governor signed SF 478, which is an attempt to curtail the use of investment subsidiaries. The Act was expected to increase FY 1996 receipts more than \$8.0 million. Data for the first quarter indicates the legislation may not be entirely successful.

Receipts Compared to REC Estimate

The July REC FY 1996 estimate of 3.2% was exceeded by 3.3 percentage points. Assuming each month is expected to increase by the REC estimate, the estimate for the first quarter was exceeded by approximately \$30.5 million. This should not necessarily be taken as an indication that the next three quarters will meet or exceed expectations. Through the first quarter, 22.9% of the FY 1996 estimate has been received.

Racing and gaming receipts continue to be closely monitored. The July REC raised the FY 1996 estimate to \$93.4 million, which is \$64.9 million (227.7%) higher than FY 1995 receipts. Receipts through September were \$16.1 million (356.1%) higher than the same period in FY 1995. If cash flow adjustments are considered, receipts through September were \$1.9 million more than anticipated. The following chart illustrates the expected cash flow for FY 1996 racing and gaming receipts.



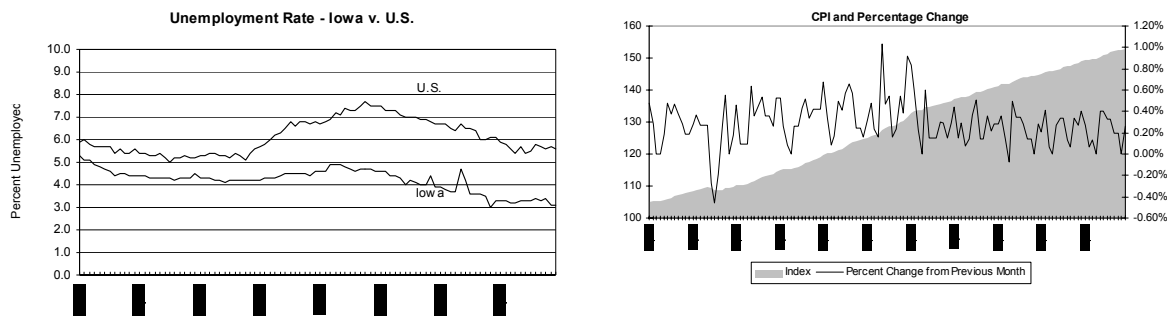
Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. The September installment for FY 1996 has been paid, and all payments are scheduled to be completed by June 1996.

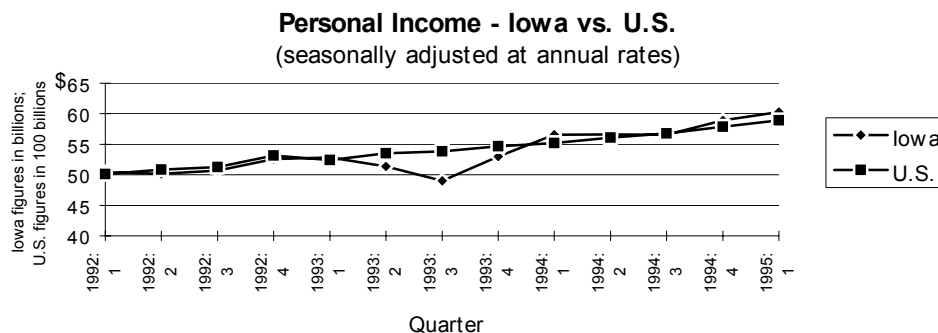
Status of the Economy

The seasonally adjusted percent unemployed for the State held at a record low 3.1% in August. The primary cause was a reduction in the size of the labor force in July, which decreased by almost 25,000 persons. Actual employment dropped slightly. The U.S. unemployment rate decreased one-tenth of a percentage point to 5.6% in August.

Consumer prices in August increased 0.3%. The Consumer Price Index (CPI) through August 1995 was 152.9 (1983=100), which is 2.6% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through August 1995.



The U.S. Bureau of Economic Analysis (BEA) released first quarter 1995 personal income estimates. Iowa accounts for approximately 1.0% of the nation's total personal income, which is unchanged from last quarter. The following chart compares Iowa and U.S. personal income estimates through the first quarter of 1995.



We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

